

**DEPARTMENT OF INSURANCE**

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December 3, 2007

The Honorable Joe Coto  
California State Assembly  
State Capitol, Room 2013  
Sacramento, CA 95814

Dear Chairman Coto:

Thank you for your inquiry about the letter Commissioner Poizner sent to insurance companies regarding their participation in the COIN program in California. Increasing participation in COIN is one of Commissioner Poizner's personal priorities at the Department of Insurance, and his letter was intended to help determine what directions CDI can take that will move COIN in the most positive direction. We have been able to achieve some significant gains in 2007, and as you will see below, the answers we have received from insurers are already helping CDI formulate strategies to make 2008 even more successful. We hope to work with you on any additional ideas you might have.

Here is a summary of the information we received from the Commissioner's inquiry. If you have any questions, please feel free to call me directly at (916) 492-3612.

Sincerely,

David Link  
Deputy Commissioner  
California Department of Insurance

cc: Senator Mike Machado, Chair of the Senate Banking, Finance and Insurance Committee  
Jennifer Galehouse, Assembly Speaker Fabian Nunez's Office

## **RESPONSE RATE**

- The 485 companies who responded represent approximately 40% of the California market. 353 of these companies are part of approximately 127 groups. The remaining 132 companies have no group affiliation.
- 111 of the companies submitting Questionnaires have made COIN-qualifying investments.

### **Note on Response Rate**

We noticed that some non-responders included several larger groups, as measured by CA market share. Of the top 25 Life groups, 11 did not respond; of the top 25 Property and Casualty Groups, 7 did not respond. 12 of these 18 non-responders have reported COIN-qualifying investments and several have been active in promoting the program.

## **COMPANY INVESTMENT POLICIES**

### **54 COMPANIES HAVE COMMUNITY DEVELOPMENT (CD) INVESTMENT POLICIES**

- The MetLife and the State Farm groups and the California State Automobile Association Inter-Insurance Bureau (CSAA), attached or described comprehensive community development investment policies. Others provided little detail.
- 8 companies set specific goals. 6 companies representing two groups target specific dollar amounts, \$50,000 (Civil Svc. Employees Group) or \$1 million (CA Casualty Mgt. Group), commensurate with company size. In addition, 21<sup>st</sup> Century's corporate investment policy specifically allows for 5% of statutory surplus to be invested in community type investments, and, in June 2006, CSAA's Board authorized a substantial increase for their CD investment program.
- 16 companies from 3 groups are members of Impact Community Capital (ICC).

### **Analysis**

- Through 2004, MetLife is the top COIN investor with \$1.3 billion in COIN-qualifying investments and \$146 million in high impact investments, the largest of any group. In the State Farm Group, every company invests and their two largest companies are in the top 10 P&C companies in terms of both total COIN-qualifying investments and high impact investments. Both groups have been active participants on the COIN Advisory Board. CSAA makes new CD investments in California every year and is also in the top ten P&C companies in terms of total and high impact CD investments. The policies of these companies should be used as models for other companies.

- We support the concept of having specific goals for annual CD investments as was done by the eight companies above.
- While Impact Community Capital has made some notable CD investments on behalf of their member companies, we would like to see more of the Impact member companies also take responsibility for making CD investments on their own.

## **SUGGESTIONS ON WAYS TO INCREASE PARTICIPATION**

The final question was *“Is there anything I can do as Insurance Commissioner, or we could do in California that would result in your increasing your California community development investments?”*

123 companies made suggestions summarized below:

- 51 Companies suggested providing financial incentives.
  - 38 cited the use of tax credits as a possibility.
  - 13 P&C companies (from 2 big groups) indicate the rate variance could provide incentive.
- 48 companies variously stated that they – or their investment management firms – needed more information about the COIN program and about qualifying investments.
  - 24 specifically asked us to communicate more investment opportunities (including using email) and to develop more information about opportunities that meet the COIN criteria.
  - 18 companies more generally indicated the need for “education” or “more information” on the program.
  - 6 suggested we raise awareness of the program with insurers and investment management firms.
- 18 companies replied that a simplified and/or expedited process for getting CDI approval for new forms or products would be an effective incentive.
- The State Farm Group representing 5 companies said “continuing to publish and provide positive messaging to the public and media about the community development accomplishments of these corporate investments will provide additional incentive to insurers not already active.”
- 1 company suggested making Workers’ Compensation deposit rules more flexible to allow community development investments to qualify.

Other responses: 206 companies left this question blank, 110 said there was nothing we could do, and others repeated their reasons for not participating or provided answers that revealed a misunderstanding of the existing program.

## **CDI Actions Steps**

- Our Strategic Plan calls for fully using the tax credit program we administer, increasing insurers’ use of the program, seeking legislation to increase the amount of tax credits available and preparing the new reports required by the Legislature. When the program was up for renewal last year, COIN/CDI proposed an increase. Although the Legislature agreed

to extend the program and reserve a portion of the tax credits exclusively for insurers for the first half of each year, they asked for additional reporting, presumably, before they would consider increasing the tax credit amount. In 2009, after the first reports are completed, preparing a Legislative proposal to increase the amount of the tax credits may be appropriate.

- It appears that some companies asking for tax credits do not realize we administer a California tax credit for certain California community development investments. There are other Federal and State programs that offer tax credits for investments that are COIN-qualifying. Our Strategic Plan identifies these problems and includes education and outreach tactics to correct them.
- Throughout our Strategic Plan Outreach, we emphasize getting information to insurers about CD investing. To respond to these insurers' suggestions, we need to do two things:
  - Increase the number of investment opportunity bulletins, both for specific investment opportunities and for programs or classes of investment types that qualify.
  - Do a better job of outreach and education in getting the word out about the COIN Web site and the Investment Opportunity Bulletins that currently exist.
- The strongest impression we got when reviewing the Questionnaire responses is that many insurers have a limited understanding, or some misunderstandings, about what community development investing means. The Outreach, Education and Public Relations Programs described in our Strategic Plan will address this challenge. The Questionnaire responses will allow us to target messages to companies that are directly responsive to the issues they raised.
- We included a simplified and/or expedited process for getting CDI approval in our Strategic Plan. Under the Federal Community Reinvestment Act, Federal regulators have authority to withhold approval of requests from banks with poor records of community involvement and reinvestment. This is analogous to the industry practice to expedite the underwriting for their top insurance producers as a matter of company practice.
- Current law requires CDI to recognize certain high impact investors, and developing a recognition program is part of our Strategic Plan.
- We understand from our Legal Division that Workers' Compensation deposit rules may already allow community development investments to qualify. We think it's a great idea.

## **MANY RESPONSES TO THE QUESTIONS ON BARRIERS REVEALED MISCONCEPTIONS ABOUT CD INVESTING**

- 154 companies cited some combination of risk, return and liquidity as reasons they do not make or increase California community development investments. (These companies do not understand that there are COIN-qualifying investments that would meet the strictest of investment criteria.)
- 4 small companies cited the time it takes to find suitable community development investments is a disincentive.
- 2 companies asked for investment opportunities with smaller minimums.

### **CDI Action Steps**

- This further validates the need for the Outreach/Education and Public Relations Programs described in our Strategic Plan. Some companies truly do not understand there are COIN-qualifying investments that would meet the strictest of investment criteria. These companies would probably invest if we reached them with appropriate educational materials. So many companies identified this barrier, we must ensure we make addressing this misconception a high priority in our Education and Outreach Programs of our Strategic Plan. Yet it must be noted that some companies use this misconception simply as an excuse for nonparticipation.
- Although time constraints were mentioned by only 4 companies, we believe this is a key reason more do not invest. Companies committed to make community development investments dedicate staff resources to it.
- Since some COIN-qualifying investments can be made in any amount, the request for smaller minimums represents another misunderstanding.

### **COMPANIES WHO LIKELY CAN'T MAKE CD INVESTMENTS**

105 companies cite characteristics of the company that, somewhat legitimately, make it difficult for them to make California community development investments.

- 54 companies who submitted the Questionnaire have little or no California presence.
- 24 are in run-off or receivership.
- 18 claim they are too small.
- 9 are small fraternal companies whose charter restricts their “special” investments to purposes related to their membership base.
- 13 companies are newly admitted and haven’t yet looked into the COIN program.

### **Analysis**

There are some cases in which a company cannot make COIN related investments. However, newly admitted companies and some small companies may simply need more education.

### **GOOD IDEAS THAT MAY BE DIFFICULT TO ACHIEVE**

Miscellaneous suggestions from various companies: make all COIN-qualifying investments admitted assets; provide community development investments with improved NAIC Risk Based Capital treatment. The Federal Office of the Controller of the Currency allows banks to make community development investments (“Public Welfare Investments”) in types of investments not otherwise allowed for bank investments.

### **UNHELPFUL RESPONSES FROM CONFUSED OR UNINTERESTED COMPANIES**

- 11 companies from the Zurich Insurance Group cited their current tax position as the reason they can make no California community development investments, and then proceeded to

state they need help understanding the program. However, 2 Zurich companies have already reported COIN-qualifying investments.

- 3 companies from one group replied that they must invest outside of California because they insure in California. They called this “avoiding correlation risk.”
- 4 companies said they made and reported no qualifying investments because they have no interest in doing so.

## **ITEMS BEYOND OUR SCOPE OF RESPONSIBILITY**

One group of 8 companies suggested that changes to State and Federal tax law regarding Low Income Housing Tax Credits would help.

## **CONCLUSION**

Overall, the responses to the Questionnaire validate the need, outlined in the Strategic Plan, for implementing a robust, coordinated, and targeted Outreach, Education and Public Relations campaign to increase insurer community development investing in California.

Even before analyzing the Questionnaires, our Strategic Plan called for us to encourage insurers to adopt a community development investment policy, provide for an education and outreach program to dispel common myths and to utilize the Commissioner to directly appeal to companies doing business in California.

In addition, we need to pursue options for increasing incentives and reducing barriers, as suggested by insurers and described in our Strategic Plan. This includes exploring options for providing companies additional financial incentives. As we move forward, we will incorporate many of the suggestions made by companies.